



FY 2008-09 Budget Summary and Policy Highlights

***Paying for Better Performance:
Investing in the Future***

**Governor Pawlenty's Budget Proposal
January 22, 2007**



Department of Finance

Fax: (651) 296-8685
TTY: 1-800-627-3529

January 22, 2007

To the 2007 Legislature:

On behalf of Governor Pawlenty, I am pleased to submit his budget for FY 2008-09.

The starting point for this budget is much different than it has been in the recent past. The November forecast projects nearly a \$2.2 billion balance – a dramatic contrast to the huge deficit the state faced in 2003, and the significant shortfalls addressed in 2005.

Managing this forecast surplus responsibly to avoid creating future budget shortfalls is one of the Governor's key goals. Development of the FY 2008-09 budget adhered to important fiscal management principles including limiting future obligations that new initiatives may create, anticipating the impact of future inflationary costs, and ensuring a prudent mix of one-time and ongoing spending so that future budgets remain balanced.

The proposed general fund budget will be \$34.4 billion, a 9.3 percent increase in spending over the current biennium. This increase is entirely supported by growth in existing state revenues. No new state taxes are proposed, fee increases are limited and targeted tax cuts and property tax relief are provided to Minnesota families and businesses.

Before any Governor's decisions are considered, the forecast FY 2008-09 current law spending grows over a billion dollars, largely driven by increases in health and human services enrollment and costs. Over one-half of the projected \$2 billion balance is available for new spending or tax cuts, of which the Governor has allocated \$1.1 billion to education alone. The Governor's budget includes \$754 million for K-12 education and an additional \$414 million for higher education. Significant policy initiatives and funding of key priorities are proposed for alternative energy, clean water, health care, transportation, tax relief, improving government services and increasing support for our military and veterans.

This budget is affordable but requires a sound fiscal management approach to the future. The Governor has structurally balanced the budget for the next four years - projected revenues will exceed projected spending by \$904 million by FY 2011, providing room for future investments or inflationary growth.

The Governor's budget also increases the reserve from \$653 million to \$700 million, 4 percent of annual spending. His plan includes a five percent goal, indexing the reserve to increases in state spending, and allocating a portion of forecast surpluses to the reserve until the five percent standard is reached.

Anticipating your interest in a comprehensive view of the budget, we are providing each legislator with a full set of budget documents. The detailed budget volumes are organized by agency, in alphabetical order. These materials include agency and program level background, financial data, and descriptions of the Governor's initiatives and change items.

I look forward to working with you on the important decisions that you will be making in the next few months to set the next budget and long-term outlook for the state.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

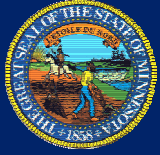
Tom Hanson
Commissioner of Finance

Table of Contents

Highlights	1
Better Education.....	6
Better Health Care	8
Better Energy	10
Better Government.....	11
Military and Veterans.....	13

Summaries by spending area

K-12 Education.....	14
Higher Education.....	16
Tax Policy, Aids and Credits	18
Health and Human Services.....	20
Agriculture and Environment	22
Economic Development and Housing	23
Transportation	25
Public Safety	26
Military and Veterans.....	27
State Government	28
Capital Projects	30
Financial Summaries/Appendix.....	31



Governor Tim Pawlenty FY 2008-09 Budget Recommendations

Highlights

“Minnesota government should stop paying for good intentions and start paying for better performance.”

Highlights: The Governor's FY 2008-09 Budget

Last year Minnesota citizens and businesses paid a total of \$31.5 billion in state and local taxes, fees and other charges in order to fund public services at the state, county, city and township levels. This amount is equivalent to 16.5 cents of every dollar earned.

The Governor's proposed budget for FY 2008-09 state spending presents a plan that is based on revenue growth, not tax increases. His proposals will fund core state services while making strategic investments that recognize changing demographics, a changing global economy, and unprecedented changes in technology.

This budget defines how the Governor intends to use state resources to provide priority services to citizens at an affordable cost. It also presents a prudent plan to restore Minnesota's financial stability.

Economic and Budget Outlook

The Governor's budget is based on the November 2006 economic forecast. The outlook for Minnesota's economy remains strong. Over the last three years, Minnesota has added over 125,000 jobs. As a result of continuing economic growth, revenues for the current biennium are expected to exceed spending by \$1 billion, resulting in a surplus.

Forecast revenues are expected to grow an additional \$1.2 billion in the next two years, providing nearly \$2.2 billion available for increased spending or tax reductions in FY 2008-09 budget decisions.



General Fund Balance Sheet Governor's FY 2008-09 Budget (\$ in millions)

Beginning Balance	\$2,134
Forecast Revenues	33,517
Governor's Initiatives	(143)
Total Revenues	33,375
Forecast Spending	32,496
Governor's Initiatives	1,953
Total Spending	34,449
Budget reserve	700
Cash Flow Account	350
Balance	\$10

Budgeted Revenues

The Governor's FY 2008-09 budget is based on the November forecast of general fund revenues of \$33.517 billion, an increase of 3.9% over the current biennium. Forecast tax revenues are expected to grow nearly \$1.6 billion, or 5.7 percent. Taxes represent 93 percent of all general fund revenues. Non-tax revenues are expected to contribute \$2.3 billion, 7 percent of total revenues.

The Governor's budget is balanced without tax increases and provides \$281 million in tax relief over the next two years, over \$650 million over four years. In FY 2008-09, \$220 million in tax relief is provided to individuals and families: \$150 million in property tax relief, and \$70 million in income tax reductions. Businesses will receive \$61 million in targeted tax reductions designed to stimulate business investment and growth.

Tax relief is delivered both through revenue reductions and increases in state aids that act to reduce local governments and schools on property tax increases.

Proposed tax and other revenue changes will reduce the amount available for FY 2008-09 by \$143 million, including the following:

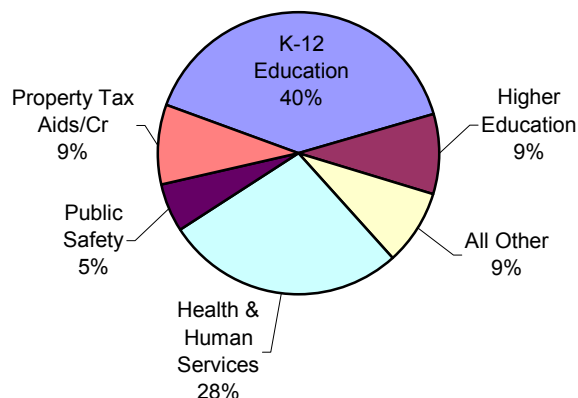
- **General fund tax collections reduced by \$148 million.** Provides immediate conformity to federal tax changes benefiting individual taxpayers, phasing in military pension income tax exemptions, providing dairy investment credits, up-front capital equipment sales tax exemptions and single sales tax acceleration, as well as sales tax exemptions for Mn/DOT operations, construction and maintenance projects.
- **\$67 million of sales taxes on motor vehicle leases redirected.** Proposes current general fund revenue be deposited in highway and transit funds - adding to the commitment voters made to constitutionally dedicate motor vehicle sales taxes for transportation purposes.
- **Revenue collections increase by \$51 million.** Provides additional funding to the Department of Revenue to continue to expand efforts to collect unpaid taxes.
- **Limited increase in state fees.** Increases general fund fees by less than \$7 million, and increases fees to other funds by to less than \$40 million. Increases limited to recovering program costs or dedicated investments.

Budgeted Spending

Proposed spending by area highlights the Governor's priorities, with nearly one-half of total general fund spending going to education. Education and health and human services spending together will account for over three-quarters of the budget.

The proposed budget includes general fund spending for FY2008-09 of \$34.449 billion. This is a \$2.944 billion or 9.3% increase over the current biennium. Inflation over the comparable period is expected to be 4.2 percent as measured by the Consumer Price Index (CPI).

General Fund Spending: \$34.4 Billion



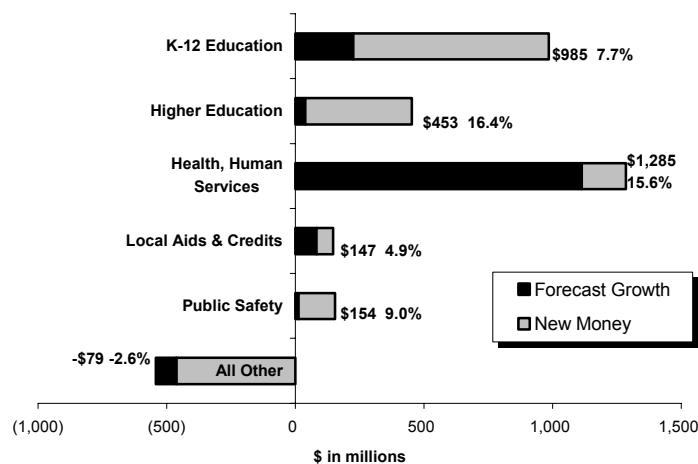
General Fund Spending Increases

Of the \$2.9 billion total increase in general fund spending over FY 2006-07, nearly one-half, over \$1.4 billion, is directed to education, and \$1.2 billion, 43 percent, is allocated to health and human services programs. The remainder is directed to other state programs and priorities.

However, it is important to recognize that forecast state spending, under current laws and before any decisions by the Governor, grows \$1.009 billion, or 3.2% over the current biennium. The most significant part of this growth occurs in health and human service programs. These programs will grow \$1.113 billion due to increasing health care costs and increasing enrollments.

The following graphic highlights both general fund forecast growth of \$1.009 billion over FY 2006-07 by major spending areas, as well as the \$1.953 billion in spending added by the Governor in his budget recommendations.

Spending Growth over FY 2006-07



This budget increases spending by a significant amount, \$2.9 billion over the current biennium. The 9.3 percent increase over the current biennium is over twice the rate of projected inflation. In addition to funding growth in the current law forecast base spending, the largest discretionary increases are directed by the Governor to K-12 education and higher education.

Increases by spending areas over the current budget for FY 2006-07 are highlighted below.

K-12 Education - \$986 million

The Governor has made education his top priority in this budget. The K-12 education budget totals \$13.745 billion, an increase of 7.7% over the current biennium. The Governor's plan funds \$225 million of current law forecast increases and adds \$760 million to key initiatives.

The Governor's plan ties major portions of funding increases to redesigning Minnesota's high schools and rewarding high performance schools. It increases the per pupil formula 2 percent per year – with the possibility for an additional two percent per year if districts meet targets to increase educational achievement.

Higher Education - \$454 million

The Governor's budget invests in Minnesota's higher education and economic growth priorities. Higher education will receive \$3.216 billion in state funding, a 16.4 percent increase from current spending levels. The Governor's plan funds many of the strategic priorities requested by the University of Minnesota and the MnSCU system, while increasing student-centered support programs, and provides one-time funding for performance bonuses for meeting key outcome measures.

Health and Human Services - \$1.3 billion

The recommendations fund \$1.113 billion in projected forecast growth in health and human services budgets, while adding \$172 million to continue to increase access to health care, provide rate increases to providers, and expand quality initiatives and partnerships designed to reform the health care system.

General fund spending for FY 2008-09 will reach \$9.541 billion, \$1.285 billion above FY 2006-07, a 15.6 percent increase. When combined with spending from the health care access fund, state funding for health and human services will reach nearly \$10.6 billion, an 18.8 percent increase over FY 2006-07 spending.

Property Tax Aid and Credits - \$148 million

Recommended increases will provide direct property tax relief to Minnesota homeowners and renters, as well as increasing local government aid programs that assist Minnesota communities with basic services. Total spending will reach \$3.2 billion, a 4.9% increase over the current budget.

Also, \$140 million is provided in human services, public safety, and other spending areas as new payments to cities, towns and counties can reduce local government reliance upon property tax increases.

Public Safety - \$154 million

Continuing commitments to ensure safer Minnesota communities, the Governor's budget spends \$1.866 billion, a 9.0 percent increase over the current biennium. A major portion of the general fund increase is directed to ensuring continued safe operations of the state's correctional facilities, funding increasing costs in the court systems, and continuing enhancements to CrimNET. Total funding will reach \$2.166 billion, a 3.6 percent increase over FY 2006-07 spending.

Environment and Agriculture - \$99 million

In his FY 2008-09 recommendations, the Governor fully funds natural resources, environmental, and agricultural programs while investing to accelerate the development of alternative fuel technologies and a four-year \$80 million clean waters initiative. General fund spending will grow to \$466 million, a 27 percent increase, while total funding will reach \$1.3 billion, nearly a 9 percent increase over the current biennium.

Transportation - \$120 million

The recommendation for transportation provides a \$100 million one-time transfer to the trunk highway fund to accelerate key highway projects. Including this transfer, the general fund contribution to highway and transit funding increases to \$336 million, a 56 percent increase over the current biennium. Dedicating general fund sales tax revenues on motor vehicle leases provides an additional \$67 million in transportation and transit resources. Total transportation spending will reach \$4.956 billion including state and federal funding sources.

Economic Development - \$32 million

Proposed increases target additional funds to housing and homeless programs, renewable energy programs, and expanding expand tourism, business development, and market expansion activities. General fund appropriations will increase 9.3 percent to \$378 million, while total funding from all sources will reach nearly \$1.5 billion.

Military and Veterans Affairs - \$20 million

Proposed changes provide over a 50 percent increase from FY 2006-07 by increasing outreach and support programs for our military men and women.

\$50 million of additional benefits are provided through tax reductions and a Minnesota GI bill directed to individual military and veteran men and women and their families.

State Government - \$94 million

Provides \$662 million to fund legislative, constitutional offices, and administrative state agencies, a 16.5 percent increase over current funding levels. The majority of this increase is targeted to information technology investments including \$62 million to modernize the state's technology infrastructure and security systems, \$15 million to develop a uniform structure for electronic licensing for all state agencies, and \$16 million to integrate all tax systems in the Department of Revenue.

Compensation adjustments - \$85 million

To maintain effective delivery of state services, the Governor's budget allocates \$94 million to legislative, constitutional offices, and executive branch agencies to fund potential labor contract, benefit, and retirement contribution increases. The additional money provides a 2.0 percent per year adjustment based on current compensation costs.

To ensure that quality of care and security requirements are met, direct care activities at veterans homes and human services' facilities are funded at 3.25 percent. Correctional institutions will receive 4.25 percent to include scheduled retirement contribution increases.

Reserves, Financial Management

The Governor believes that moving Minnesota forward will require maintaining a favorable tax climate and a fiscally responsible and stable state budget. To accomplish this, the Governor's budget raises the bar on prudent financial management – to ensure that the budget choices made this legislative session do not return to State to the type of budget shortfalls faced in 2003 and 2005.

Budget Reserve Increase - \$47 million

The Governor recommends increasing the general fund budget reserve from \$653 to \$700 million in FY 2008, 4 percent of proposed FY 2009 spending. His plan also indexes the reserve to growth in the budget by setting a goal of five percent of annual spending, as well as providing that a portion of future forecast balances be automatically deposited in the reserve until the five percent goal is met.

Provides a structural balance for FY 2010-11 Outlook

The Governor's budget relies upon sound fiscal management principles to guide the use of one-time balances. The Governor's recommendations provide an appropriate mix of one-time and ongoing spending to ensure that spending will remain affordable when match against projected revenues in future years.

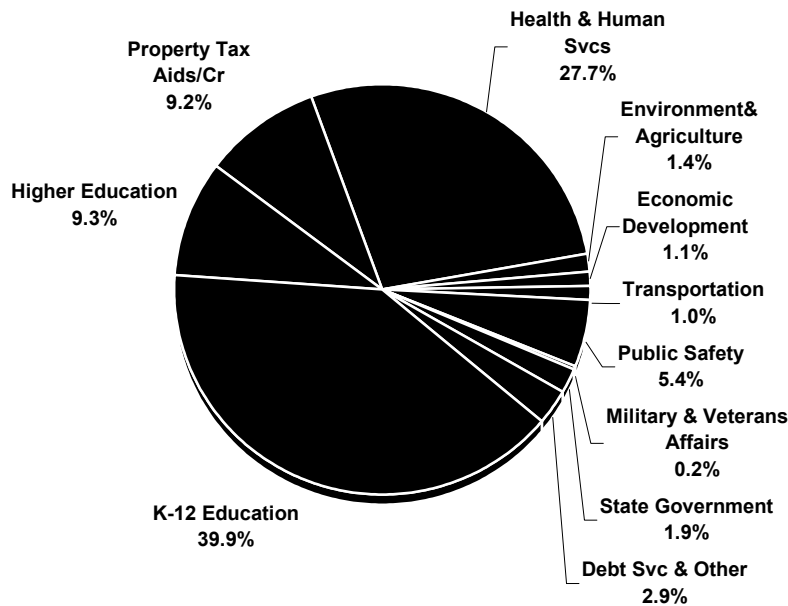
**General Fund Planning Estimates
Governor's FY 2008-09 Budget
(\$ in millions)**

	FY 2010	FY 2011
Governor's Budget		
Forecast Revenues	17,939	19,054
<i>Governor's Initiatives</i>	(57)	(85)
Forecast Spending	16,719	17,057
<i>Governor's Initiatives</i>	<u>988</u>	<u>1,008</u>
Structural Balance	175	904
<i>Estimated Inflation At 1.8% and 1.7%</i>	319	638

The budget recommendations provide for a positive revenue-expenditure balance of \$175 million in FY 2010 and slightly over \$900 million in FY 2011.

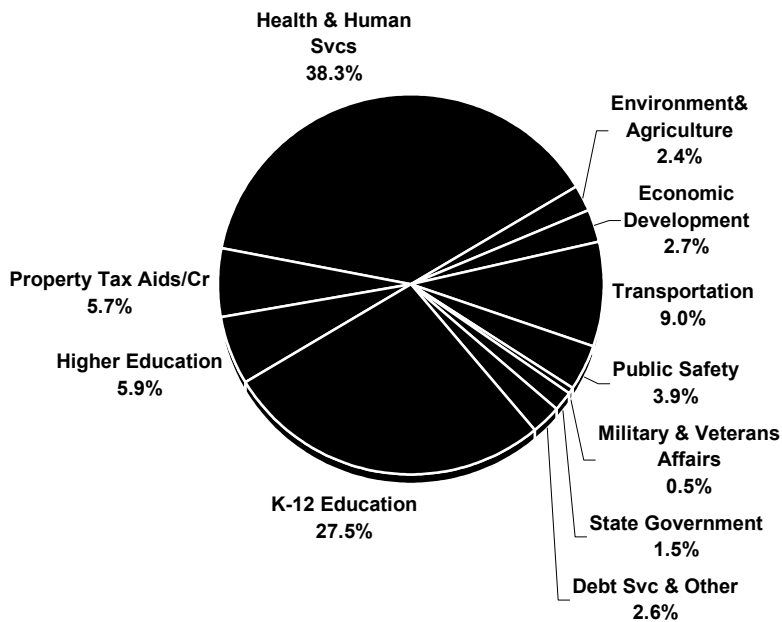
This positive balance helps ensure that the state budget will remain in balance in the future and that funding will be available for future investments, inflationary increases, or additional tax relief.

FY 2008-09 General Fund Budget Spending By Area

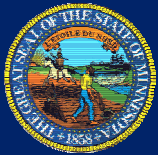


Category	Dollars in Millions
K-12 Education	\$13,745
Property Tax Aids & Credits	3,172
Higher Education	3,216
Health & Human Services	9,541
Environment, & Agriculture	466
Economic Development	378
Transportation	336
Public Safety	1,866
State Government	662
Military & Veterans Affairs	70
All Other	997
Total	\$34,449

All Funds: General, Special Revenue, Federal FY 2008-09 Proposed Spending



Category	Dollars in Millions
K-12 Education	\$15,125
Property Tax Aids & Credits	3,157
Higher Education	3,275
Health & Human Services	21,104
Environment & Agriculture	1,317
Economic Development	1,483
Transportation	4,956
Military & Veterans Affairs	255
Public Safety	2,166
State Government	806
All Other	1,418
Total	\$55,062



“Let’s not allow nostalgia to limit our children’s future. We owe our children their own future, not our past.”

Better Education

Minnesota’s schools and its students lead the nation in test scores and high school graduation rates. The challenge is to see that success as a starting point for greater achievement, rather than an argument for the status quo. The Governor has recognized the need for better schools and has made it his key priority—nearly half of the new funding in his budget is allocated to K-12 education. His recommendations contain funding in the K-12 education and higher education areas that aim to support and challenge students, schools and systems.

2 % Per Pupil Formula Increase

In order to provide schools with basic funding for their operations, the Governor’s budget recommendations provide nearly \$300 million to fund a two percent increase in the per student funding formula. This recommendation increases the formula allowance from its current level of \$4,974 to \$ 5,176 per pupil unit by FY 2009.

Bonus 2% Increase to Performing Schools

For those schools that are performing well, the Successful Schools initiative will give schools a bonus of approximately two percent more per year (\$90 to \$150 per student, depending on the number of schools that qualify) if they achieve or maintain at least a 3-star rating in reading or math on their Minnesota school report card. This pool will help to both encourage and reward performance in our schools, using a measure that is transparent to the public.



3R High Schools

The Governor’s budget also sets aside \$75 million for schools willing to provide “rigor, relevance and results” for their high school students. The “3R High Schools” initiative recognizes the mismatch between teaching styles and organizational structures in our high schools and the interests and needs of today’s students – be it an emphasis on technology know-how or a commitment to challenging courses throughout the high school years. Schools that agree to become 3R High Schools will receive funding to expand the availability of rigorous academic, career and technical courses and to develop more comprehensive work-based learning and internships offerings for their students.

Other Initiatives

Other initiatives support and expand the Governor’s efforts to transform Minnesota’s schools, including: \$15.4 million for expanding the reach of Advanced Placement and International Baccalaureate programs; \$6 million for math and science academies to ensure success in the implementation of the math and science standards; \$4 million for schools to explore alternative calendars and schedules; \$33 million to provide all schools with a foundational set of standards and resources to integrate technology into their curriculum; and \$5 million to encourage development and use of a clearinghouse of online courses that all districts have access to a comprehensive range of course offerings.

Higher education increase

In his FY 2008-09 budget, the Governor lays out some significant incentives and opportunities for students, teachers and schools and his recommendations put forward a similar challenge to the public post-secondary institutions.

His budget provides a total of \$414 million in new state spending for higher education, supporting a large range of initiatives in the health sciences, renewable energy, science and engineering, student recruitment and retention, classroom and infrastructure technology, and faculty recruitment, resulting in an increase of 16.4% over current funding. Of this amount, \$50 million is set aside for performance bonuses for the University of Minnesota and MnSCU if they achieve measurable success on key indicators that are directly related to the budget initiatives for which the Governor is recommending funding.

ACHIEVE II

The Governor's K-12 budget helps ensure that students will be academically prepared to go beyond high school, and his \$92 million ACHIEVE proposal provides the means for students to be financially prepared to do so. In concert with the Governor's recommendations to transform high schools, ACHIEVE will allow high school students who take rigorous college level courses to both earn college credit and receive a scholarship upon graduation that can be used at any Minnesota college or university.

Early childhood education

The Governor's budget also recognizes the need to prepare our youngest and most vulnerable students with the tools to succeed as they enter the school system. His budget provides a \$29 million increase for this purpose. Quality early childhood programs have been proven to improve student outcomes for low-income children, and the Governor's early childhood scholarship program will provide each at-risk student up to \$4,000 to attend a certified kindergarten readiness program of the family's choice.



“We need to have a comprehensive approach that simultaneously focuses on improving access, improving quality and lowering costs.”

Better Health Care

Although Minnesota has been ranked the healthiest state in the nation and has the lowest uninsured rates in the country, our current health care system needs reform. Health care cost trends are unsustainable, and the current system lacks incentives to focus on providing the best care at the lowest cost. In addition, many Minnesotans lack access to affordable health insurance.

The costs of both public and private health insurance continues to grow at a rapid rate. This biennial budget anticipates growth in overall health and human services spending of \$1.1 billion (13.4%) even before policy changes are considered.

Public health care programs face many similar cost pressures as the private health care market, including medical inflation and the changing utilization of health care services. However, public health care programs differ from the private market in that public programs must also accommodate higher enrollment when demand increases. Growing enrollment only exacerbates the affordability challenge if we do not improve the value of each dollar spent by focusing on outcomes.

The Governor’s budget capitalizes on available balances in the health care access fund (HCAF) to begin to fix our broken health care system. The Governor’s Healthy Connections plan is the foundation of reform in this challenging endeavor.

Healthy Connections

Healthy Connections will begin the journey to improve the health care system, expand access, and move toward the goal of ensuring access and affordability for health care for all Minnesotans. Together, these reforms will cost \$31 million in FY 2008-09, and will be a \$90 million commitment once fully implemented in the next biennium.



Specifically, the three major proposals are:

Establish the Minnesota Health Insurance Exchange (MnHIE)

Provides \$12 million to:

- Enable individuals to pay premiums with pre-tax dollars
- Reduce small employer burden
- Provide subsidized private sector policies through MinnesotaCare II
- Serve as a simple conduit to coverage for people who do not have access to employer sponsored insurance.

Improve Health Care Affordability

Reduces tax revenues \$2 million by:

- Expanding use of section 125 plans to enable individuals without employer-based coverage to buy health coverage with pre-tax dollars, just as those with employer coverage do.
- This proposal requires employers with 11 or more employees to establish these pre-tax plans to substantially improve the affordability of coverage for 44,000 Minnesotans.

Modernize MinnesotaCare

Provides \$17 million to meet goals for:

- Improving affordability and access to coverage for children, by lowering premiums and raising the income threshold for eligibility (300% of federal poverty guidelines, or about \$60,000 for a family of four);
- Expanding choice for enrollees through MinnesotaCare II, with benchmark private market products that will include benefit design elements that focus on prevention, outcomes, and healthy behaviors.

Mental Health Reform

The Governor is also renewing his commitment to substantially reform, expand and improve mental health service delivery and infrastructure through a \$45 million set of initiatives. This will result in improved:

- *Services.* The funding reforms reflect the need to integrate mental health treatment within the mainstream health care delivery system, ensure coordination with social services, and improve the underlying financial incentives for timely, effective care.
- *Infrastructure.* Additionally, the proposal recognizes that the struggling mental health service infrastructure serves all Minnesotans, not just those in public health care programs, and proposes investments in this infrastructure to benefit all those who use it.
- *Outcomes.* Finally, a key emphasis of this proposal is to develop a robust evaluation system of client outcomes to ensure this investment pays off.

Electronic Records

The introduction of health information technology and electronic health records to transforming health care from a manual and burdensome world of paper records are a modern, interconnected world of electronic information. Electronic health records enhance the availability and accuracy of patient data, provide powerful decision support tools to improve clinical care, readily enable reports for improving quality, safety, and consumer satisfaction, and help protect communities in times of need. The Governor's plan utilizes \$18.5 million of health care access fund money to continue to make progress toward a statewide interoperable electronic medical records system and to close gaps in the adoption of health information technology in underserved rural and urban settings.

Qcare

Building on the existing efforts of the Governor's QCare initiative, this budget adds \$2 million to further expand Minnesota's pay-for-performance in health care to focus on cardiac care and to continue to improve on existing diabetes efforts. The importance of outcomes is further supported in the budget through a QCare physician-directed care initiative, as well as QCare bonus accounts that will be available to MinnesotaCare II participants.

Center for Health Care Purchasing Improvement

Finally, the Governor recommends increasing the investment in the Center for Health Care Purchasing Improvement by \$1 million to continue the State of Minnesota's leadership role as a prudent, proactive buyer of only the best health care value and quality. The proposed investment in the center will improve the value to taxpayers of this expensive and rapidly growing segment of our budget.



“Our great nation’s sad addiction to foreign oil exposes the country to a reckless amount of economic and national security risk ... let’s show the nation how to move even more boldly toward energy independence.”



Better Energy

The Governor’s FY 2008-09 budget makes major strides toward turning the vision of a new energy future for Minnesota into a reality. The budget includes over \$40 million in new investments in renewable energy that will continue to improve our energy independence and grow this prospering sector of our economy.

Minnesota is uniquely positioned to contribute to the growing alternative energy market, from the possibilities offered by the wind sweeping across the plains, to the nation-leading ethanol industry. The Governor is committed to moving Minnesota on a path that would allow us to generate 25 percent of Minnesota’s energy with renewable resources by the year 2025. His initiatives to make that a reality include increasing the number of E85 stations in the state, funding research, and offering more financial assistance to institutions that aid in renewable energy production. His budget also includes new staff at PCA, DNR, and PUC to address some of the permitting and regulatory concerns of biofuels and wind energy production.

E85 Everywhere

The Governor’s budget includes \$12 million for a five-fold expansion in the number of Minnesota retail service stations selling 85% ethanol-based motor fuel (E85), moving from the current 300 stations to 1,800 by 2010. This expansion will markedly accelerate access to and use of ethanol across the state.

NextGeneration Demonstration and Production

The Governor’s budget creates a package of several next generation bioenergy incentive programs to spur the development of facilities to produce fuels derived from biomass or cellulosic materials such as grasses, wood products, straw and corn stover.

NextGeneration Energy Research

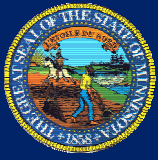
In order to spur additional research into renewable energy, the Governor recommends \$10 million in competitive grants, with entities such as the University of Minnesota, MnSCU, the Agriculture Utilization and Research Institute encouraged to apply. Key criteria for successful grantees would be the amount of non-state funds leveraged and brought into the state for research, and the total number of grants awarded under this program.

25 by 25 Activities

In order to meet his goal of having Minnesota generate 25 percent of our needed energy with renewable resources by the year 2025, the Governor’s budget includes \$5 million for several activities targeted at renewable energy and energy conservation including solar rebates, clean energy action teams, methane digester grants, and incentives for hybrid electrical vehicles.

Green Fleets, Green Fuels

This \$3 million initiative will significantly expand support to Project Green Fleet, which helps reduce emissions and increase the efficiency of school buses, and further work to expand the use of the “green fuels” such as E85 and biodiesel. Funding will also be used to expand the Small Business Environmental Improvement Loan Program, used to leverage funds to purchase fuel-saving technologies.



“Minnesota should stop paying for good intentions and start paying for better performance.”

Better Government

State government has an important role to play in our society—from educational institutions to transportation, nursing home facilities to parks and recreation, Minnesotans utilize state functions. Yet too often government's success, a Governor's budget, or the legislature's actions are judged on how much or how little is being spent, rather than on whether the funds are being used well. In key areas, the Governor's budget introduces or expands performance funding with the goal of helping the public understand what they are getting for their tax dollars.

Performance Funding

The state has already enacted performance incentives such as QComp in K-12 – where in 34 districts, teachers are now paid for superior performance rather than seniority -- and QCare – where health systems are paid for superior care on key conditions. This budget recommends an extension of QComp and then proposes additional performance funding initiatives for K-12 schools, nursing homes, the University of Minnesota and MnSCU.

Successful Schools

Since 2004, our K-12 schools have been assigned a rating from 1 to 5 stars, based on a variety of measures that collectively demonstrate the efficiency and effectiveness of that school. Schools that have earned three or more stars will receive a bonus, up to \$150 per student, with the total performance pool totaling \$150 million.

Performance Bonuses

The Governor's budget includes \$50 million in performance bonuses, split between the University of Minnesota and MnSCU, when they demonstrate success on readily available measures related to each of the funding requests that the Governor's budget supports. The Governor's budget defines success fairly modestly, generally a 5%



improvement in three out of the five identified measures.

Nursing Home Performance Incentive

For nursing homes, the Governor's budget extends his performance initiative of the last biennium. Nursing homes that meet established performance standards will earn an additional half percent rate increase on top of a general recommended increase of 1.5 percent.

Delivering Value: Technology and Process Improvements

Technology Improvements

The Governor's budget includes several key initiatives aimed at improving the effectiveness of state government. The centerpiece of these reform efforts include \$77 million in critical technology improvements that will benefit all state agencies, building a strong technological base to deliver state services efficiently and securely. The total amount recommended for IT investments in this budget is \$213 million.

Electronic Licensing

The explosion in technology over the last decade has also led to an explosion in the expectations that Minnesotans have of their government. When they can buy a car on-line at any time of the day, they also expect to be able to apply for their title and registration on-line, day or night. The Governor's budget recommends \$15 million to greatly expand e-government in the state, by designing and building a secure framework for electronic licensing that will eventually be used by applicants for over 600 license types serviced by over 40 state agencies, including the issuance of over 800,000 occupational and professional licenses and 300,000 business and commercial licenses each year.

Enterprise IT Security

The Governor's budget invests \$17 million in the state's infrastructure in order to ensure that electronic licensing and other state activities take place in a secure environment, so that citizen and vendor data and transactions are secure and reliable. This funding will be used to hire staff and purchase enterprise security tools, providing central leadership and skills to state activities. Ineffective security measures at one agency expose the entire state network to risk – this initiative creates the umbrella under which all networks can operate protected from intrusion.

Technology Carry-forward

To support technology improvements in individual agencies, the Governor's budget also recommends allowing any operating funds that are not used at the end of a budget period to be set aside for future technology needs. Under current law, state agencies face a "use it or lose it" dilemma at the end of each biennium, with no opportunity to prudently manage resources and plan for future costs.

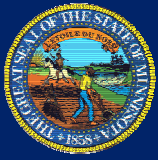
The Governor's proposal would put state agencies on an equal footing with the legislature, counties, cities and higher education institutions, and provide state managers with the opportunity to use savings gained from wise financial managements for later technology investments. This will reduce estimated general fund cancellations \$7.5 million in FY 2007 and FY 2009.

Small Agency Support

Small agencies get a boost in the Governor's recommendations, with \$2.5 million for small agency technology projects, and \$500,000 for a new centralized administrative and operations center for small agencies. Both initiatives will allow small agencies to concentrate on their mission and goals without diverting their limited resources to developing administrative and technological expertise.

Grants Management

In response to long-standing interest within the executive branch and the non-profit community, as well as a recent Legislative Auditor report, the Governor's budget provides \$0.5 million to improve the grants management process in state agencies. His budget creates an Office of Grants Management in the Department of Administration, with several staff available to disseminate best practices to agencies and to work with them to ensure more standard application of policies and process. This initiative should help non-profit grantees have a more uniform and predictable experience as they work with state agencies to deliver important services, and should ensure the best value for the taxpayer dollar.



“We need a surge of support for our military families, and we need it now.”

Military and Veterans

The recent extension of the deployment for Minnesota’s National Guard members served as a reminder of the great burden borne by the military troops and their families. The Governor’s support of our military heroes is reflected in his military and veterans package of over two dozen budget initiatives, spread across six agencies.

Exemption from State Income Tax

One of the largest items is an exemption from state income tax for military pay and military pensions, with the goal of encouraging military retirees to live and work in Minnesota. Under the proposal, Minnesota soldiers, veterans and survivors of military retirees would be allowed to subtract 100 percent of their pay for military service, military pensions and retirement payments when computing state income tax. These payments are currently considered taxable income. The exemption will be phased in over a four-year period and is expected to save veterans and military members \$16.5 million in taxes in the next two-year budget period, and over \$42 million when fully phased in.

Educational Benefits

To ensure that returning soldiers have a comprehensive set of educational benefits, the \$30 million Minnesota GI Bill proposed by the Governor would help to fill any gaps left by federal GI benefits and other financial aid. Eligible veterans and their dependents could receive \$1,000 per semester for up to 5 years of post secondary tuition not covered by other financial aid or veterans benefits, up to a total of \$10,000. As many as 7,000 veterans and 600 spouses and dependents are estimated to be eligible for this program. Increased support for the veterans on campus will also be assured through a \$2.3 million initiative to increase the number of outreach offices on college campuses.



Beyond the Yellow Ribbon

Other key initiatives include \$1.5 million for “Beyond the Yellow Ribbon,” a reintegration initiative to ease the transition from active service for returning troops and their families.

Veterans Affairs Programs

Recognizing the increasingly critical role of veterans in our society and the need to support them comprehensively, the Governor’s budget recommends significant increases for programs delivered by the Veterans Affairs department. These include a \$2 million increase in the State Solider Assistance Program, and \$7.3 million to increase outreach efforts and to support County Veterans Services Offices in their efforts to work with returning soldiers.

Infrastructure Improvements

Infrastructure improvements also are a critical part of the Governor’s package. Deployments and budget pressures have made scheduling routine maintenance of the 61 National Guard armories located throughout the state difficult and the Governor’s budget recommends \$3.5 million to ensure that the Armories are maintained in top condition. Funding for facility repairs, and for increased rent and utility costs at Minnesota’s Veterans Homes are also recommended, in the amount of \$9.3 million.



K-12 Education

The K-12 Education budget provides state aid to school districts for elementary and secondary schools, as well as funding for early childhood education, libraries, community education and operating funds for the Department of Education, the Residential Academies for the Blind and the Deaf in Faribault, and the Perpich Center for Arts Education in Golden Valley.

The Governor's budget for K-12 Education increases state spending by 7.7%, or \$986 million, compared to the last budget, and \$760 million (5.9%) over the forecast base.

Key Elements of the Budget Recommendations

The Governor's budget recommendations for K-12 education include both significant funding increases and results-oriented reforms that will allow Minnesota students to compete globally.

Specific proposals include:

2% Formula Increase - \$294 million

Recognizing the cost pressures faced by school districts, the Governor proposes increasing the Basic Education formula by 2% in each of the next two years, bringing the per student allowance to \$5,176 in FY 2009. Annual increases of 2% are also proposed for Special Education and several categorical aid programs.

Successful Schools - \$150 million

High performing schools should be rewarded, as reflected in the Governor's recommendation for \$150 million in one-time bonuses for schools that achieve at least three stars in math or reading on the State School Report Card. Star ratings are tied to No Child Left Behind performance requirements as well as rigorous state standards. Schools that qualify as Successful Schools will receive the approximate equivalent of an additional 2% on the Basic Education formula.

3R High Schools - \$75 million

The Governor's budget includes \$75 million for the 3R (Rigor, Relevance and Results) High Schools program. 3R high schools will agree to implement rigorous and relevant courses for all students, provide access to a broad range of college credit

opportunities, develop opportunities for work-based learning and internships, and require that every student complete a full year of college while in high school. In return they will receive significant additional funds to support their transformation. To support this initiative, the Governor is also proposing \$15.4 million over the biennium to expand Advanced Placement/International Baccalaureate (AP/IB) programs throughout the state.

Teacher Development

Dedicated, talented and high-quality teachers are essential to the success of Minnesota students, and the Governor's budget includes various initiatives to recognize and reward teacher performance and development, including:

\$13 million for the growth and expansion of the Q-Comp program, aimed at encouraging professional development and rewarding quality teacher performance

\$4.5 million for the Minnesota First Five Teacher Induction program, providing mentoring and coaching to teachers in their first years of teaching in order to increase the retention of quality teachers.

\$6 million for Math and Science Teacher Academies that will provide teachers with professional development opportunities in these essential subject areas, as well as offer technical assistance to schools and districts. The academies will improve the math and science curriculum statewide and help the Minnesota Academic Standards for math and science.

Technology Improvements - \$38 million

In order to ensure Minnesota classrooms meet a minimum standard of technological capacity, the Governor's budget includes \$38 million for school technology funding. This funding will allow districts to reach a point of even technological capabilities, so initiatives requiring technological capacity can be implemented statewide. Included in this funding is \$5 million for districts to develop and offer online courses, in order to expand opportunities for students. The Governor is also recommending nearly \$6 million for computer based formative assessments. This tool will be aligned with the MCA-II exams and will allow teachers and students access to frequent, diagnostic and predictive information regarding student performance and areas of strength and weakness.

Early Childhood Scholarships - \$28.9 million

The Governor recommends \$28.9 million to provide the families of at-risk pre-kindergartners with resources and support to prepare these children for kindergarten. Eligible children will qualify for scholarships up to \$4,000 to be used at approved early childhood programs.

Early Childhood Quality - \$9 million

A total of \$9 million is included in the Governor's budget in order to improve the quality of early childhood programming. The initiatives will increase accountability in Early Childhood and Family Education, improve training opportunities for early childhood teachers and strengthen the educational components of early childhood and child care programming.



Higher Education

The higher education area funds the University of Minnesota, the Minnesota State Colleges and Universities (MnSCU), and the Office of Higher Education (OHE). It also includes grants to the Mayo Clinic for physician education, as well as the Higher Education Facilities Authority. This area is financed through a mix of state appropriations, federal funds, tuition, and private and institutional funds.

The Governor's general fund budget recommendations for higher education totals \$3.216 billion – a 16.4% and \$454 million increase over the current biennium and a \$414 million and 14.8% increase over the FY 2008-09 forecast base.

Key Elements of the Budget Recommendations

The Governor's recommendations direct new funding to support the strategic priorities of the two public higher education systems, balancing the needs of the systems with the critical importance of providing student-centered support, through new programs like ACHIEVE and by reinvesting in the State Grant program.

University of Minnesota - \$153 million

The Governor recommends a total of \$1.395 billion from the general fund, including \$115 million in new initiatives for the University plus \$38 million for the University-Mayo partnership. This is a 15% increase over the University's FY 2006-07 budget and a 12% increase over the forecast base. When the University-Mayo funds are excluded the biennial increase is 12%.

The University receives the Governor's support for its efforts to advance the U's strategic advantage in key research activities, including:

\$28.5 million to fully fund a Competitive Compensation pool that provides the University with flexible funds to recruit or retain select faculty members and researchers beyond the standard compensation package;

\$27.9 million to fully fund the University's "Health Workforce & Clinical Sciences" proposal, which is expected to increase the University's capacity to educate and train more health professionals, as well

as to increase the speed with which basic research is translated into new clinical practice and treatments;

\$15.6 million to fully fund the University's Science and Engineering initiative to help the University remain competitive in research and technology transfer by creating a new medical device resource center, developing applications in areas of nanotechnology, and driving the development of cross-disciplinary research in science and engineering;

\$11.5 million to fully fund a set of initiatives in the area of Environment, Agricultural Systems, and Renewable Energy that will advance the University's research on developing biofuels and increase the University's abilities to protect agricultural businesses in the state from emerging disease and pests.

\$6.9 million to fund the University's request for Technology and Related Infrastructure, for investments in high performance computer networks and national research connectivity.

\$38 million to provide the final installment of promised state operating support to the Minnesota Partnership for Biotechnology and Medical Genomics between the University, the Mayo Clinic and the state. This partnership is a unique venture that will position Minnesota as a leader in biotechnology and the development of new applications in medical genomics. The budget includes \$38 million for the partnership, bringing the total state operating contribution to \$70 million.

Minnesota State Colleges and University System (MnSCU) - \$123 million

For the Minnesota State Colleges and University System (MnSCU), the Governor recommends \$1.327 billion from the general fund, including \$123 million in new initiatives, resulting in a 10% increase over both FY 06-07 and the forecast base. The Governor's budget for MnSCU emphasizes support for the strategic direction and action plan for the system, and recognizes the key role MnSCU institutions play in educating Minnesota's workforce.

Specific elements of the Governor's budget for MnSCU include:

\$12 million for MnSCU to improve the recruitment and retention of underserved and traditionally underrepresented students, using the model of the successful federal "TRIO" education opportunity programs like Upward Bound and Student Support Services.

\$10 million to enable MnSCU to innovate improve and substantially expand its education offerings in STEM fields (science, technology, engineering and mathematics) system-wide.

\$3 million to establish a new Center of Excellence in biosciences. The Governor continues to support this initiative to establish distinctive high quality programs in specific fields.

\$3 million to support MnSCU's initiative in allied health curriculum development. This funding will enable the system to not only expand enrollments in allied health programs, but also to change and improve the way health education is conducted across the state.

\$10 million to fully support MnSCU's Management Innovations initiative. The Governor concurs with the view that encouraging behaviors that support innovation and remove barriers to efficiency is a valuable goal.

\$60 million to enable MnSCU to make important upgrades to and investments in its technology infrastructure. The recommended funding will allow MnSCU to address its most critical technology needs, as well as strengthen and expand MnSCU's pioneering efforts in distance and online learning.

Additional Performance Bonuses - \$50 million

An important element in the Governor's recommendations for the University of Minnesota and for MnSCU is the opportunity for each system to receive a one-time performance bonus of \$25 million in addition to the \$276 million detailed above. Each system has identified and is working towards measurable outcomes, and the Governor's budget builds on that work. The recommendation for a performance bonus sets out the Governor's clear expectation that the new resources to be invested each system will result in measurable improvements and tangible benefits for citizens of the state.

Officer of Higher Education

The Office of Higher Education (OHE) plays a broad role in the development and delivery of statewide

higher education policy, and also administers student-centered financial aid programs like the State Grant program. The Governor's two new important initiatives in the student aid arena will be new responsibilities for OHE:

\$92 million for ACHIEVE II—ACHIEVE II will provide a tangible incentive for high school students to take rigorous courses. This new program will provide high school students in families with incomes of \$100,000 or less the opportunity to earn a scholarship to help with future college costs each time the student passes a rigorous high school course.

\$30 million GI Bill—OHE will also administer the \$30 million Minnesota GI Bill, a part of the Governor's Military and Veterans Support Package. That proposal provides postsecondary education benefits of up to \$2,000 per year to returning veterans and to the spouses and children of veterans who have been severely disabled or killed while serving in the War on Terror.

State Grant program

The Governor also recommends new money and eligibility parameter changes in the State Grant financial aid program: by increasing the tuition maximums used in calculating awards, by increasing the Living and Miscellaneous Expense allowance \$200 per student, and by reducing the internal family income "tax rate" that is calculated for federal student aid programs.

Tax Policy, Aids & Credits

The Governor's budget recommendations in the areas of tax policy and local aids and credits are focused on four strategic outcomes:

- permanent property tax relief for homeowners,
- targeted income tax relief for certain individuals,
- strategic tax relief to improve the competitiveness of Minnesota businesses, and
- certain tax changes that help direct more money to transportation financing.

Reducing Property Tax

In recent years, local property taxes have been rising at a significant rate, sometimes creating burdens for homeowners and businesses. While local property taxes are determined largely by local government spending decisions, the Governor's budget funds the following initiatives to help ease the property tax burden:

Homestead Market Value Credits - \$47 million

This credit program directly reduces property taxes for all homeowners based on the assessed value of the home. The maximum credit is \$304. The governor's budget includes changing this program to permanently increase the benefit to existing homeowners and to expand the number of homeowners that can benefit.

Local Government Aid (LGA) - \$10 million

The Governor adds \$10 million annually to the LGA appropriation beginning in FY 2009 (Pay 2008). The money will be distributed through the existing formula. In cities over 100,000 in population, he is recommending that the new LGA be targeted toward public safety to address public safety concerns in large cities.

Property Tax Refunds (PTR) - \$8.5 million

This budget also enhances the current PTR formula to expand the relief across all income brackets. This program currently provides property tax relief for 300,000 homeowners of which about 40 percent are seniors or disabled.

The Governor's budget for local government aids and credits totals \$3.17 billion in the next biennium

from the general fund – a \$147 million or 4.9 percent increase over current biennium spending and a \$66 million or 2.1 percent increase over forecast base.

Public School Operating Capital Levies - \$40 million

The Governor's budget also includes changes in how operating capital projects are funded in public schools. These projects are now split between local levies and state aid. The Governor's increases the proportion paid by the state and automatically reduces the portion paid by local levy providing property tax relief statewide (carried in the Department of Education budget).

The actions above, along with others in the Governor's budget, such as local levy limits, increasing short-term offender reimbursement rates to counties, and supplementing county case management payments combine to create \$150 million of direct and indirect property tax relief.

Targeted Income Tax Relief

The Governor makes three targeted recommendations that reduce income taxes paid by active military personnel, retired veterans, people paying college tuition, educators, and employees without access to employer paid health insurance.

Military Income Tax Subtraction - \$16.5 million

Because of their unique sacrifices, the budget extends special income tax treatment to active duty and retired military personnel. Full exemption from state income taxes for these individuals will be phased in over a four-year period.

College Tuition and Educator Expense Deduction (Federal Conformity) - \$51.6 million

The federal government renewed special deductions for college tuition expenses and educator out of pocket expenses, along with other tax changes. The Governor recommends that Minnesota conform to these recent federal changes.

Expansion of Section 125 Plans- \$2 million

As part of the Governor's "Healthy Connections" initiative, employees without access to employer paid health insurance will have expanded options to buy insurance with pretax dollars, reducing their income tax burden to help them afford health insurance (carried in the Department of Human Services budget).

Improving Competitiveness through Targeted Business Tax Relief

Targeted business tax relief can be very important to maintaining and growing jobs and businesses in Minnesota. Some of the highlights of the Governor's business tax actions include:

Extending the JOBZ Benefit Timeframe - \$0.4 million

The Governor recommends allowing businesses joining JOBZ today to have a full ten years of tax benefit after entering the program.

Construction Sales Tax Exemption - \$6 million

The Governor's budget grants a sales tax exemption for construction costs of a new facility to help ensure that 2,000 new jobs will locate in Minnesota.

Tax Credits for Emerging Business Investors - \$6 million

Most venture capital is invested in large businesses. The Governor recommends providing limited income tax credits to encourage investors to provide venture capital to small start-up or expanding businesses in Minnesota.

Other changes targeted at increasing business competitiveness in Minnesota include a dairy investment credit, an upfront capital equipment exemption for small businesses and the forestry industry, and shortening the transition period to sales only apportionment.

Tax Changes to Supplement Transportation Funding

Our roads and transit systems are in need of additional funds. The Governor's budget includes two tax law changes that will help direct more money to transportation.

Dedicating Leased Vehicle Sales Tax - \$67 million

Last November, Minnesota voters passed a constitutional amendment to dedicate all motor vehicle sales tax to transportation and transit. Consistent with that vote, the Governor is recommending that the general sales tax on motor vehicle leases also be directed to funding transportation and transit.

Sales Tax Exemptions - \$16.5 million

To increase the effective use of transportation funding, the Governor's plan extends a sales tax exemption to construction costs for the Northstar project and to direct purchases made by MnDOT from the Trunk Highway Fund.



Health and Human Services

The Health and Human Services budget includes appropriations for the Department of Human Services, Department of Health, Veterans Homes Board, and other health-related boards. This portion of the budget pays for hospital visits, nursing home care, welfare payments, job training, care at state institutions, public health, regulatory activities, and other services. Funding and delivery of these services is a shared responsibility of the state, the federal government, and Minnesota's 87 counties.

Health & Human Services Funding (\$ in millions)

	FY 06-07	FY 08-09	\$ Chg	% Chg
General Fund	\$8,256	\$9,541	\$1,285	15.6
Health Care Access	660	1,048	388	58.8
GF/HCAF Total	8,916	10,589	1,673	18.8
All Operating Funds	\$18,502	\$21,104	\$2,602	14.1

The table above shows the recommended funding levels in the Governor's budget. Because of the interaction between the general fund and the health care access fund in this area, a more useful comparison of the biennial change is to look at both funds. As the table indicates, growth in health and human services spending is \$1.7 billion (18.8%) over the two biennia. Medical Assistance--Minnesota's Medicaid program--accounts for approximately two-thirds of the total growth. The combined increase above base for both the general fund and the health care access fund is \$274 million, or 2.6%.

Key Elements of the Budget Recommendations

The Governor's budget recommendations focus largely on reforming the health care system, improving mental health services and infrastructure, providing rate increases to continuing care providers, promoting health information technology, and continuing preparedness efforts for pandemic influenza.

Specific elements of the Governor's proposal include:

Healthy Connections - \$31 million

The budget includes reforms to establish a Minnesota Health Insurance Exchange, expand the

use of Section 125 plans, and expand and modernize MinnesotaCare. The three elements of this proposal listed below work together to improve the health care system.

The Minnesota Health Insurance Exchange (MnHIE)

—MnHIE would coordinate Minnesota's individual insurance market and provide a single place for individuals to purchase insurance. This would reduce administrative costs, and ensure that individuals have access to the best coverage option at the best price.

Improve Health Care Affordability – By expanding the use of the "Section 125" plans, both employees and employers obtain new tax benefits:

Employees. Section 125 plans allow the purchase of insurance with pre-tax dollars – allowing workers to realize up to a 30% reduction in their insurance premiums.

Employers. A 125 plan costs employers little up front, avoids payroll tax on employee contributions to the plan, and allows greater choices and reduces administrative costs that come with employer-based coverage.

Expand Access and Affordability of MinnesotaCare

—Healthy Connections also expands coverage to 13,000 additional children, reduces premiums to make coverage more affordable, creates an alternative option to purchase subsidized private insurance (MinnesotaCare II), and adds incentives to reward quality in health care.

Mental Health Initiatives - \$45 million

Mental health services and infrastructure will be improved by implementing the recommendations of the Minnesota Mental Health Action Group (MMHAG), a public-private partnership that began in 2003 to take concrete action to improve the state's mental health system. The Governor initially proposed this set of improvements in the 2006 legislative session. The Mental Health Initiative is a comprehensive reform to the mental health system. Below are highlights of the proposal:

Consistency—Creates a consistent mental health benefit set across all public health care programs.

Integrated network—Increases the proportion of clients whose mental health services are provided through an integrated network that coordinates an individual's mental health care, physical health care, and social service needs.

Qcare - \$2 million

Continuing the emphasis of paying for performance, the budget adds two pieces to existing QCare efforts: incentives for utilizing physician-directed care coordination for multiple chronic conditions, and expanding the existing diabetes treatment incentives to optimum care for certain cardiac conditions.

E-Health - \$18.5 million

Expanding on efforts begun in 2006, \$18.5 million is included to significantly expand the matching grant program to assist rural and underserved communities in implementing electronic medical record systems. The implementation of electronic records improves the availability and accuracy of patient data, provides support tools to improve care, and allows the collection of data to measure outcomes for consumers and health care professionals.

Long-Term Care Payment Increase - \$92 million

Increased payments of up to 2% each year for long-term care providers are also recommended. This plan continues the current policy of providing a portion of the increase for nursing facilities to performance measures in order to ensure individuals receive quality care. Facilities will receive 1.5% each year and can earn another half percent if they meet the performance measures.

Pandemic Preparedness - \$20 million

The budget includes \$19.8 million to improve the state's response capacity to a pandemic influenza outbreak. Included in this proposal are: \$5 million to purchase sufficient antiviral medication to treat 25 percent of the state's population; \$10 million to stockpile medical supplies; and \$4.8 million to build expertise and reaction capability at state and local public health departments.

County Case Management - \$40 million

Recognizing the state-local partnership in delivery of effective human services, \$40 million of one-time funding is provided from federal TANF balances to help counties and tribes deal with federal funding reductions. This will help preserve core child welfare, mental health, and vulnerable adult protection services.

Medical Education and Research - \$16 million

To address the continued importance of a well-trained workforce in delivery quality health care services, \$16 million from the health care access fund is included for facilities that serve as the training sites for medical education and research (MERC).

Veterans Home Board - \$15 million

To ensure quality services and improved facilities, nearly \$15 million is provided for the operation of the state's Veterans Homes. This will fund compensation costs and other operating budget pressures, as well as repair and betterment projects at the five campuses across the state.

Agriculture and the Environment

The Environment and Agriculture budget provides funding for the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the Department of Agriculture, the Board of Soil and Water Resources (BWSR) and other small agencies and boards. Their mission is to protect and enhance the quality of the environment, manage the recreational opportunities available in that environment, promote and regulate agricultural products, and protect plant and animal health.

The general fund will provide \$466 million in the next biennium, a \$99 million or 27 percent increase over current biennium spending--\$83 million or 21.7 percent increase over the forecast base. Total spending from all funds is \$1.32 billion, a \$108 million or 8.9 percent increase over the current biennium--a \$126 million or 10.6 percent increase over the forecast base.

Highlights of budget recommendations

Clean Water Legacy – \$40 million

Clean water is one of the true treasures of our state. The budget provides permanent funding to continue protecting the state's lakes, rivers, and streams, restoring the surface water already impaired, and achieving compliance with the federal Clean Water Act. Five state agencies will work together and share funding for this purpose. They are the Pollution Control Agency (PCA), the Board of Water and Soil Resources (BWSR), the Department of Natural Resources (DNR), Department of Agriculture and the Public Facilities Authority. Early funds will focus on completing studies that diagnose the problem and plan remediation efforts. Funding also includes water quality monitoring and research as well as developing and implementing mitigation strategies.

Renewable Energy – \$13 million

The Governor has clearly stated that we need a different and better energy future: one based on locally produced renewable energy. Therefore, his budget includes a total of \$40 million in funding to support renewable energy projects in the state, \$13 million of which will be directed to environment agencies. The Department of Agriculture receives \$10 million for the NextGeneration biofuels program, focusing on implementing biomass gasification technologies at existing ethanol plants.

Future funding will be focused on cellulosic and other innovative production processes. The PCA will receive \$3 million for its Green Fleets/Green Fuels program that will integrate biofuels into urban fleets. The remaining \$27 million of this proposal can be found in Economic Development.

Forestry - \$21 million

The Governor invests more money in managing state forestlands to ensure that Minnesota's forest product industries remain viable and that forests are sustained for the recreational benefits they provide for Minnesota citizens. Funding would improve the long term productivity of state administered forestlands by completing timber stand enhancements, assessing potential harvest opportunities for timber sales, protecting young forests from deer browsing and other threats, maintaining state forest roads and providing forest certification programs to protect and preserve state forests.

Livestock and Wildlife Health Management - \$2.5 million

The Governor's budget provides increased funding for monitoring and addressing current and future animal health issues. The proposed budget will expand and strengthen testing, monitoring and response to such issues as bovine tuberculosis, dairy, food and meat inspection; livestock, poultry, and wildlife health management; animal identification; and invasive species on forest and agricultural lands and in state waters.

Wetland Protection - \$4.5 million

The budget increases funding to preserve and enhance the state's prairie wetlands and strengthen enforcement of the Wetland Conservation Act.

Drainage System Enhancements - \$1 million

The Governor invests additional funds for improved drainage records management of the state's drainage system infrastructure in order to improve water quality, ditch maintenance requirements, and agricultural drainage effectiveness. The funding will continue the Local Water Management Challenge Grant program administered by BWSR which provides cost share grants for drainage records modernization efforts.



Economic Development & Housing

The Economic Development budget includes funding for the departments of Commerce, Employment and Economic Development (DEED), Labor and Industry, Minnesota Housing Finance Agency (MHFA), the Historical Society, Explore Minnesota Tourism, as well as many small agencies and boards. These agencies provide services such as financing business expansion, promoting tourism, providing affordable housing, regulating financial services and utilities, promoting safe work environments, providing employment services and job training, and preserving historically significant sites and documents.

The Governor's general fund budget for Economic Development and Housing is \$378 million in the next biennium—a \$32 million or 9.3% increase over current biennium spending and a \$78 million or 26 percent increase over forecast base. The budget from all funds totals \$1.48 billion – an \$81 million or 5.2 percent reduction over current biennium spending and a \$78 million or 5.6 percent increase over forecast base.

Key Elements of the Budget Recommendations

Renewable Energy program - \$27 million

Development of renewable fuels not only helps our environment and energy security, it also creates a tremendous opportunity for future business and jobs within the state. This is especially true in the biofuels industry. The Governor's budget includes \$27 million for the Department of Commerce for portions of his overall renewable energy activities. The remaining \$13 million of the proposal can be found in the environment section. The Commerce programs include:

E85 Everywhere - To give Minnesota a jumpstart on the Governor's plan for energy independence, \$12 million is provided for expanding the number of gas stations that sell E85 from 300 to 1,800 by 2011. A solid distribution network is a key piece of infrastructure needed to encourage drivers to switch to alternative fuels.

NextGeneration Energy Research - Under the Governor's plan, \$10 million will be provided for competitive cost-share grants for renewable energy research that will help identify the sustainable,

environmentally friendly fuels we need to break our dependence on foreign oil.

25 by 25 Grants – To fund research on plug-in hybrid electric vehicles, competitive cost-share grants for methane digesters, continue solar power rebates, and provide technical assistance on renewable energy projects to local governments, \$5 million is recommended.

Minnesota Investment Fund - \$7 million

The Governor provides \$7 million in one-time capital for the Minnesota Investment Fund. This will help create 15,000 new jobs and leverage \$40 million in private funding to boost the economic vitality of cities and towns all across Minnesota, by attracting and helping to maintain high quality jobs in industrial, manufacturing, and technology-related businesses.

Redevelopment Grants - \$2 million

The budget provides \$2 million to DEED for Redevelopment Grants. These grants share the cost of redeveloping abandoned or vacant industrial sites to attract new business investment. This program helps keep jobs in existing neighborhoods, maximize the use of existing power, gas, water, and waste lines, and avoid the need to build more roads to distant sites of new development.

The Governor also includes a total of \$6 million for the continuation of several very important job related programs at DEED including state services for the blind, vocational rehabilitation programs, and career guides to help high school students make informed career and educational choices.

Explore Minnesota Tourism - \$4 million

The Governor provides \$4 million more for expanding tourism promotion activities through Explore Minnesota Tourism's (EMT) public-private partnership initiative. EMT partners with the tourism industry to promote Minnesota as the premier vacation destination in the Midwest. A portion of these funds will require private sector match. Part of the funds will also provide incentives for film and TV production companies to come and work in Minnesota.

Affordable Housing - \$21 million

The Governor's budget invests over \$20 million in new funding at the MHFA to develop and protect affordable housing. This includes a \$15 million capital infusion into the Housing Challenge Program that partners with private developers and local governments to build affordable housing units where jobs are located. This not only helps low wage

earners find housing, but also helps relieve commuter congestion, reduce greenhouse gas emissions, and limit sprawl by re-using existing infrastructure. The Governor also includes a separate \$6.5 million for multiple programs that support the housing services infrastructure, preserve public housing and provide rehabilitation loans for affordable housing.

Ending homelessness - \$15 million

The Governor provides \$15 million to MHFA to continue efforts started in 2003 to end chronic homelessness in Minnesota. This funding will meet the goal of providing 1,200 housing opportunities this biennium by providing rental assistance to very low income citizens, assisting the mentally ill to find and keep housing, and helping families in crisis retain their existing housing and avoid homelessness. There are also complimentary operating funds for needed services at the Department of Human Services.

Home mortgage industry regulation - \$1.6 million

At the Department of Commerce, the Governor funds new staff to increase regulation and oversight of the home mortgage industry. This new staffing will help address some recent concerns about questionable lending practices and the recent increase in foreclosures. Commerce will also establish a specific "Senior Team" to help protect vulnerable senior citizens from illegal and unethical practices in the home mortgage and other areas.



Transportation

This portion of the state budget provides for the design, construction, maintenance, and management of state highways and bridges, financing of county state aid and municipal state aid roads, state aid for metropolitan and Greater Minnesota transit operations, and the development and maintenance of airports. It also includes the transportation-related functions of the Department of Public Safety.

General fund resources for transportation increase \$120 million, or 55.3 percent under the Governor's plan. Total FY 2008-09 operating resources for transportation will be nearly \$5.0 billion under the Governor's proposed budget. This one percent increase in overall funding is related to the expiration of one-time spending at the end of the current 2006-07 biennium.

The Governor's budget recommendations for transportation include additional funding to operate and improve the state's highways and transit systems, as well as furthering highway safety by substantially increasing the resources of the Minnesota State Patrol.

Key Elements of the Governor's Budget Recommendations

Implementation of the Constitutional Amendment

The Governor recommends that the voters' decision to dedicate motor vehicle sales tax to transportation be implemented with 60% of the funds going to state and local highways, and 40% to transit. After the transition, the Governor recommends that 38% of MVST go to metropolitan transit and 2% to Greater Minnesota transit.

Sales Tax on Vehicle Leasing - \$67 million

Building on the foundation of the amendment, the budget further dedicates sales tax paid on vehicle leases to transportation--on the same basis as MVST--redirecting existing general fund revenue. This change will add \$67 million more for highway and transit investments for 2008-09 and grow to \$90 million in 2010-11. The reduction to general fund revenues is shown in tax policy changes.

Trunk Highway Investment - \$100 million

To recognize the substantial needs of the trunk highway system, the budget includes a one-time transfer of \$100 million from the general fund to the trunk highway fund to complete priority projects, and recommends that \$1.7 billion be authorized for trunk highway bonding over the next 10 years.

Mileage Charge Demonstration - \$5 million

To reduce the reliance on the gas tax as a transportation funding source, \$5 million from the \$100 million trunk highway fund transfer is directed toward a pilot project to demonstrate technologies that would allow a fuel-neutral mileage charge.

Exempt Trunk Highway Fund From Sales Tax - \$8 million

To maximize resources in the trunk highway fund that are available for improving highways, purchases from the trunk highway fund should no longer pay sales tax to the state. In addition, the Northstar Commuter rail line project should also be exempt from state sales tax to further this important transit project. The reductions to general fund revenues for both pieces are shown in tax policy changes.

Enhance Highway Safety - \$19 million

Law enforcement is critical to ensuring that Minnesotans can travel safely around the state. The budget adds resources to the State Patrol to fund compensation costs related to existing troopers and other critical costs such as fuel, as well as a recommendation to fund 40 state troopers, with an emphasis on outcomes-based deployments to ensure this investment results in safer roads.

Improve Security at the Capitol - \$3 million

Recent audits point out the need for additional security measures at the Capitol. Twenty additional security guard positions and improved equipment are recommended to further protect the Capitol Complex and those who visit, work, legislate or conduct judicial business there.



Public Safety

The Public Safety budget provides funding for Minnesota's criminal justice system. This section of the budget includes funding for the Department of Corrections, the criminal justice-related portions of the Department of Public Safety, the Courts, the Board of Public Defense, and the Department of Human Rights. The financing for Public Safety agencies comes from the general fund, federal grants, and other state funds.

Overall, the Governor's general fund Public Safety budget for FY 2008-09 totals \$1.87 billion, an increase of 9.0% over the 2006-07 biennium. This represents an increase of \$142.6 million, or 8.3% over the FY 2008-09 base.

Key Elements of the Budget Recommendation

The Governor's budget proposal for public safety ensures that resources are available for an effective system of incarceration for the state's worst criminals and bolsters support for community-based supervision to enhance public safety. Specific elements of the Governor's proposal include:

Correctional institutions - \$66 million

Increased funding is included for correctional institutions at \$66 million over FY 2006-07 levels to accommodate increasing numbers of inmates and to pay for cost increases for fuel, health care and correctional officers.

Offender supervision - \$20 million

The budget also provides an increase of \$17 million for supervising offenders in the community, with special emphasis on sex offender management and assessment.

Successful transitions - \$6 million

Recognizing that the vast majority of offenders return to the community, the budget includes \$3 million to expand reentry services. Additionally, nearly \$3 million is provided for supervision of offenders successfully completing the Challenge Incarceration Program (CIP) or Conditional Release Program (CRP), both designed to offer early release after rigorous programming and treatment while in prison.

Short Term Offenders & Work Crews - \$5 million

To assist counties with the cost of housing short-term offenders, \$4 million is provided to roughly triple the per-day reimbursements paid to local partners. Over \$1 million is included to maintain offender work crews, such as litter clean-up, around the state.

ARMER communication system - \$23 million

Recognizing the importance of effective communication to enhancing public safety and to improving emergency preparedness, this proposal includes a commitment for the state to complete the statewide interoperable public safety communication system (ARMER) over the next two biennia. This plan includes additional spending in 2008-09 to build on the success of the already operating Metro system by adding funds to operate Phase 3 (nearing completion of development), and appropriations to fully design the remainder of the system in 2008, and add a new phase in 2009.

CriMNet - \$16 million

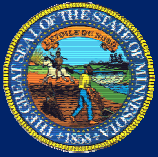
Nearly \$16 million is recommended to continue building the state's criminal justice information system, CriMNet, which will include adding a portal to allow criminal justice users to access statewide repositories of data and will enhance biometric identification through current fingerprint-reading technologies.

BCA Forensic scientists - \$3 million

The budget includes nearly \$3 million to add 20 new forensic scientists to the BCA laboratory to reduce turn-around time on examinations of physical evidence and \$2.5 million to maintain consistent support of multi-jurisdictional gang/drug task forces and the metro gang strike force.

Judicial Branch - \$42 million

An increase of 4% per year, nearly \$42 million, is proposed for the judicial branch agencies, which include the Supreme Court, Court of Appeals, Trial Courts, and Board of Public Defense, to address compensation-related and caseload increases, and other initiatives to improve judicial services to Minnesotans.



Military & Veterans Affairs

Spending in this area includes the program and operations of the Department of Military Affairs (and their activities related to the National Guard) and the Department of Veterans Affairs.

The Governor's FY 2008-09 budget for these agencies provides for a 51 percent increase over their general fund operating budgets of the previous biennium. As part of the \$74.8 million Military and Veterans Support Package announced earlier in January, the proposed general fund budget includes \$19.6 million in new spending for these agencies. In addition to the recommended changes in general fund spending, federal funds flowing through the Department of Military Affairs nearly double, increasing by 78.8%.

Key Initiatives

Returning soldiers - \$3.5 million

To support the Minnesota Army and Air National Guard troops returning from combat operations in the coming biennium, the Governor recommends adding \$2 million to the State Soldier Assistance Program, an increase of 14% over current law. The Governor's budget also includes \$1.5 million for a new reintegration program called "Beyond the Yellow Ribbon" aimed at insuring successful reintegration of returning National Guard members back into civilian life.

Veterans outreach and support - \$10 million

With fewer than 50 percent of veterans applying for and receiving the benefits to which they are entitled, the Governor recommends \$9.6 million in various outreach efforts, including:

\$2 million for outreach and communication efforts at the Department of Veterans Affairs

\$2 million to assist the Minnesota Assistance Council for Veterans (MACV)

\$2.3 million for additional grants to County Veterans Services Offices, and

\$3.3 million to open 12 additional Veterans Assistance Offices on post-secondary campuses.

Military support - \$3.4 million

In response to the challenges brought on by continued troop deployments and budget pressures, the Governor recommends a total of \$4.4 million for the Department of Military Affairs. The largest initiative within this amount is \$3.5 million to increase maintenance at the 61 National Guard armories around the state.

Veterans Affairs - \$1 million

To provide an appropriate administrative foundation to effectively implement the significant responsibilities enacted in the 2006 session and recommended by the Governor, the budget includes \$1.2 million in additional funds for staffing and information technology at the Department of Veterans Affairs.



State Government

The State Government budget includes the constitutional officers and the Legislature, the five major staff agencies (Administration, Employee Relations, Finance, Office of Enterprise Technology, and Revenue) and a number of other smaller agencies.

The Governor's FY 2008-09 general fund operating budget for these agencies totals \$662 million – a 16.5% increase from the current biennium. Many of the recommendations involve investments in technology and related operations, with broad application across state government. Although their costs are carried in this area, the benefit and applicability are enterprise-wide.

Key Elements of the Budget Recommendations

Key technology initiatives include:

Comprehensive Enterprise Security Program - \$17 million

To meet the challenges of a rapidly changing information security environment, the Governor recommends \$17.1 million to add staff, develop recovery plans for IT operations, and acquire enterprise security tools that allow for constant monitoring of agency networks and applications.

Statewide Real Property Management System - \$7 million

The budget includes \$6.7 million to implement a web-enabled, statewide shared system to more effectively manage state-owned property. This system will allow all state agencies that maintain land with buildings to uniformly track and manage their assets and work scheduling, and allow decision-makers to better target asset preservation dollars.

Enterprise Consolidation and Management of Information Technology - \$13 million

In order to streamline, upgrade and manage state agency technology, \$12.9 million is recommended to jump-start consolidation of IT resources and to augment existing enterprise technology efforts. By moving to an enterprise model for IT management, the state will realize economies of scale and service improvements.

Minnesota Electronic Licensing System - \$15 million

To satisfy growing citizen demand for online government services, the budget includes \$15 million for Phase One of a one-stop electronic licensing system to streamline the process of obtaining professional, occupational, and commercial licenses.

Integrated Tax System - \$16 million

The Governor recommends \$16 million to streamline collection of state revenues by the Department of Revenue by developing an integrated tax system. When operational, this new system will replace and update several existing applications and databases.

Other key initiatives aimed at improving the way that government does its work, include:

Small Agency Administration and Technology - \$3 million

To enable small agencies to better focus on their core missions the Governor recommends establishing a Small Agency Resource Team (SMART) to consolidate and streamline the human resources and financial management activities of small agencies, boards and councils. In addition, the Governor recommends centralizing management of small agency technology projects within the Office of Enterprise Technology in order to provide these agencies with know-how and economies of scale which they might be unable to obtain on their own.

Center for Health Care Purchasing - \$1 million

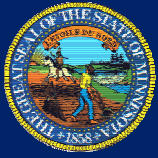
To improve the value to taxpayers for more than \$4 billion of annual state spending on health care, the Governor recommends an additional \$1 million for the Center for Health Care Purchasing, currently housed at the Department of Employee Relations. In concert with private sector and other partners, the Center will focus on adopting common practices and mutually reinforcing health care strategies across state government agencies in order to become a proactive buyer of only the best in health care value and quality.

Office of Grants Management - \$0.5 million

The Governor recommends the establishment of a new enterprise organization for improved grant services and accountability. This initiative will strengthen efficiency by standardizing grant policies across state agencies and improve oversight to ensure grant dollars are spent effectively.

Energy Savings for State Buildings - \$0.5 million

The Governor recommends funding for the State Building Recommissioning Program to yield reductions in energy use. Recommissioning involves improvements to a building's existing mechanical systems to allow for improved energy efficiency. Projects typically result in a 5-15% reduction in energy use.



Capital Budget

With billion dollar capital budget bills in 2005 and 2006, the Governor's capital budget is limited for 2007 to \$69.8 million in urgent projects, or items of past consensus that the Governor is putting forward again. Of the total, \$59.8 million is for general obligation (G.O.) bonds, and \$10 million is for user-financed bonding for the Rural Finance Authority.

The Department of Finance's November 2006 expenditure forecast included the amount of debt service that would be necessary to pay for a \$135 million package of G.O. bonding projects in 2007. Because the Governor is recommending a package of only \$59.8 million in G.O. bonding, the state's estimated debt service costs will be \$6.2 million less in FY 2008-09 and \$14.8 million less in FY 2010-11 than forecast.

Governor's bonding recommendations include:

DOT exterior - \$11.8 million

Prevent further deterioration and replace the obsolete structural support system for the 1,200 pound granite panels on the exterior of the Department of Transportation building.

Property acquisition by Administration Department - \$2.2 million

Buy three available parcels next to the state-owned Stassen Building, to meet immediate customer parking needs, imminent employee parking demands and to capitalize on strategic opportunities for state ownership in the Capitol area.

Oak Park Heights Prison perimeter system - \$3.9 million

Provide upgrades to and replace obsolete elements of the perimeter systems (fence, razor wire, security, lighting, cameras) at Oak Park Heights prison to maintain full security throughout the facility.

Oak Park Heights Prison ventilation system - \$2.2 million

Replace and re-insulate existing mold-infested ventilation ductwork to eliminate a significant and serious mold growth problem at the Oak Park Heights Prison.

Minnesota Zoo Inflow/Infiltration Abatement - \$1.5 million

Reduce the flow of clear water into the wastewater system on Zoo grounds. The Zoo must construct a project to abate its inflow/infiltration problem if it is to avoid a surcharge of this same amount, along with increased water and sewer charges.

City of Stillwater Flood Control Phase III - \$0.2 million

Design and construct Phase III of the Stillwater Flood Control project. Phase III will protect the historic downtown from the flooding that has occurred 17 times since 1940. The amount of this request is intended to get the city through the 2007 construction season only.

Department of Agriculture: Rural Finance Authority loans - \$10 million

Provide additional user-financed bonding authority to meet unexpected and immediate demand for RFA loan programs, including the Beginning Farmer, Seller Sponsored, Agricultural Improvement, Restructure II, and Livestock Expansion programs.

Duluth DECC/UMD Arena - \$37.9 million

Pay half the cost to design and construct a new Duluth Arena at the Duluth Entertainment and Convention Center (DECC). The existing 40 year-old arena will be replaced with a modern facility that has a larger rink and will have about a 30% increase in seating capacity.

Appendix - Financial Summaries

The following section provides additional detail on historical and recommended levels of revenue and spending for the FY 2008-09 budget. The graphics and tables are presented to provide commonly requested information and additional financial data.

FY 2008-09 General Fund Budget

- Where the Dollars Come From (revenue sources)
- Where the Dollars Go (by major spending area)

Total Operating Budget (All funds)

- Where the Dollars Come From (revenue sources)
- Spending by Major Operating Funds
- Spending by Major Spending Area

Other tables present comparative General Fund information for both the current biennium and the proposed budget for FY 2008-09 by major revenue sources and spending areas.

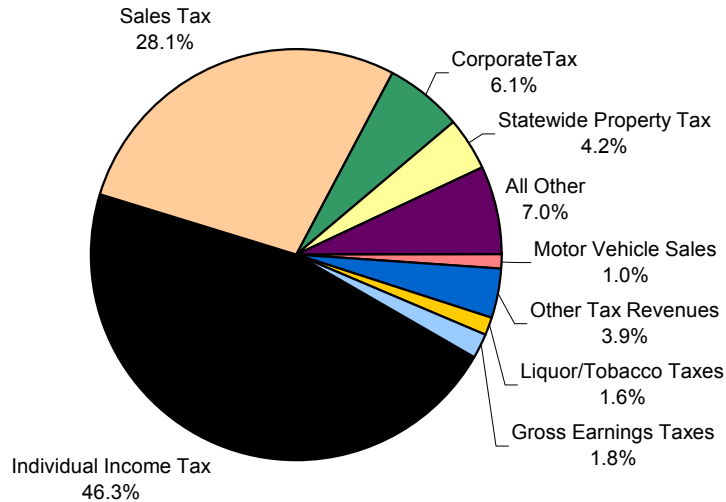
- Governor's Recommendation by Year
- Annual Percent Change
- Comparison: Increases Over Current Biennium
- Comparison: November 2006 Forecast – Proposed FY 2008-09 Budget
- FY 2010-11 Planning Estimates

2008-09 Biennium

Where the General Fund Dollars Come From

January 2007 Governor's Recommendations

2008-09 BIENNIUM
\$33,375 Million Revenues
\$2,134 Million Balance Forward



	(<u>\$ in Millions</u>)
Balance Forward 6-30-07	\$2,134
Non-Dedicated Revenues:	
Individual Income Tax	15,461
Sales Tax	9,384
Corporate Tax	2,023
Statewide Property Tax	1,402
Motor Vehicle Sales Tax	321
Gross Earnings Taxes	610
Liquor, Wine, Beer Taxes	152
Cigarette & Tobacco Taxes	382
Other Tax Revenues	1,307
All Other Revenues	1,518
Subtotal Non-Dedicated Revenues	<u>32,560</u>
Dedicated Revenue	132
Transfers From Other Funds	633
Prior Year Adjustments	50
SUBTOTAL CURRENT RESOURCES	<u>33,375</u>
TOTAL AVAILABLE RESOURCES, FY 2008-09	<u>\$35,509</u>
Less: Estimated Expenditures	34,449
Cash Flow Account	350
Budget Reserve	700
Projected General Fund Balance 6-30-09	<u>\$10</u>
January 2007 Governor's Recommendations	<u><u>\$10</u></u>

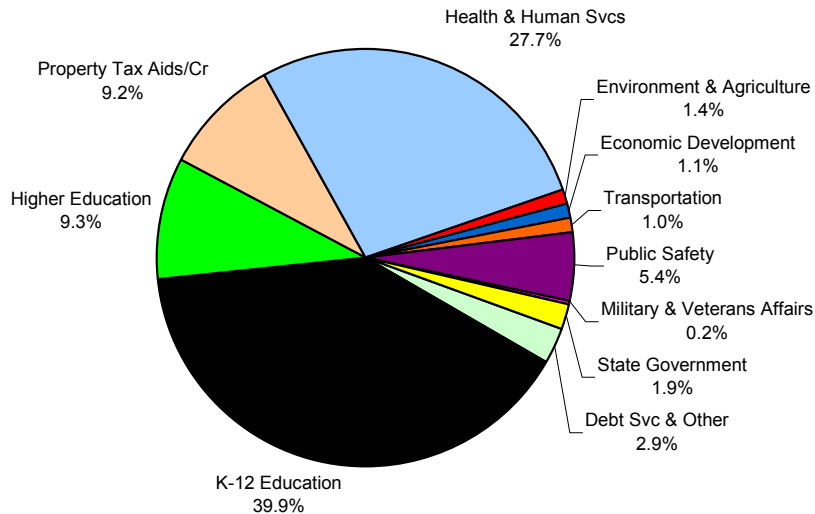
2008-09 Biennium

Where the General Fund Dollars Go

January 2007 Governor's Recommendations

2008-09 BIENNIUM

\$34,449 Million Spending
\$350 Million Cash Flow Account
\$700 Million Budget Reserve



(\$ in Millions)

TOTAL AVAILABLE RESOURCES, FY 2008-09

\$35,509

Major Spending Areas:

K-12 Education	\$13,745
Property Tax Recog/Payment Change	(4)
Property Tax Aids & Credits	3,172
Higher Education	3,216
Health & Human Services	9,541
Environment & Agriculture	466
Economic Development	378
Transportation	336
Public Safety	1,866
Military & Veterans Affairs	70
State Government	662
Debt Service	896
Capital Projects & Other	21
Estimated Cancellations	(13)

Subtotal-Major Spending Areas **\$34,352**

Dedicated Expenditures

97

TOTAL ESTIMATED EXPENDITURES, FY 2008-09

\$34,449

Cash Flow Account	350
Budget Reserve	700

Projected General Fund Balance 6-30-09

\$10

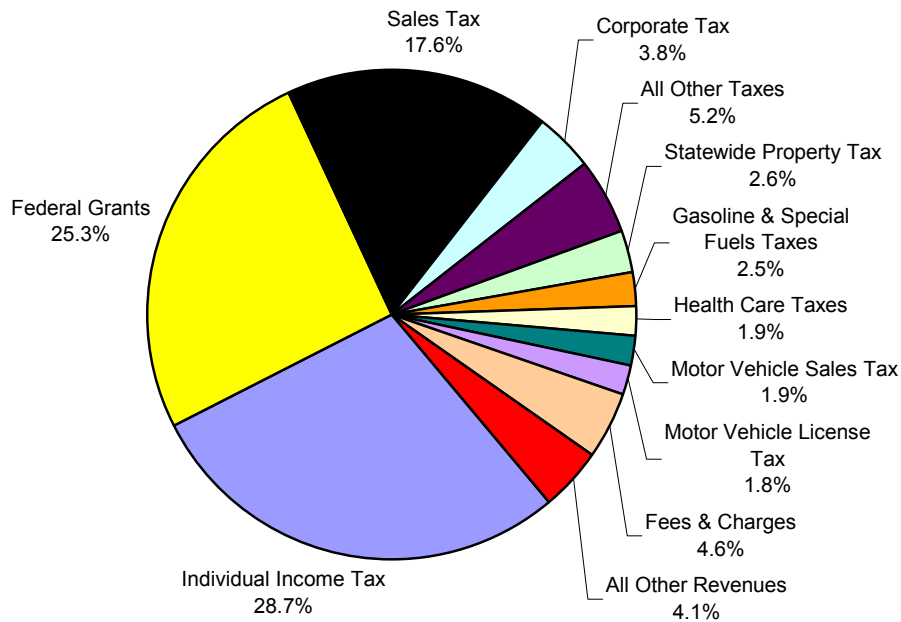
January 2007 Governor's Recommendations

Where the Dollars Come From

All Operating Funds

January 2007 Governor's Recommendations

2008-09 Biennium
\$53.842 Billion Revenues
\$3.983 Balance Forward



Revenues

(\$ in millions)

Individual Income Tax	\$15,461
Federal Grants	13,648
Sales Tax	9,492
Corporate Tax	2,023
All Other Taxes	2,781
Statewide Property Tax	1,402
Gasoline & Special Fuels Taxes	1,320
Health Care Taxes	1,041
Motor Vehicle Sales Tax	1,029
Motor Vehicle License Tax	969
Fees & Charges	2,472
All Other Revenues	2,203

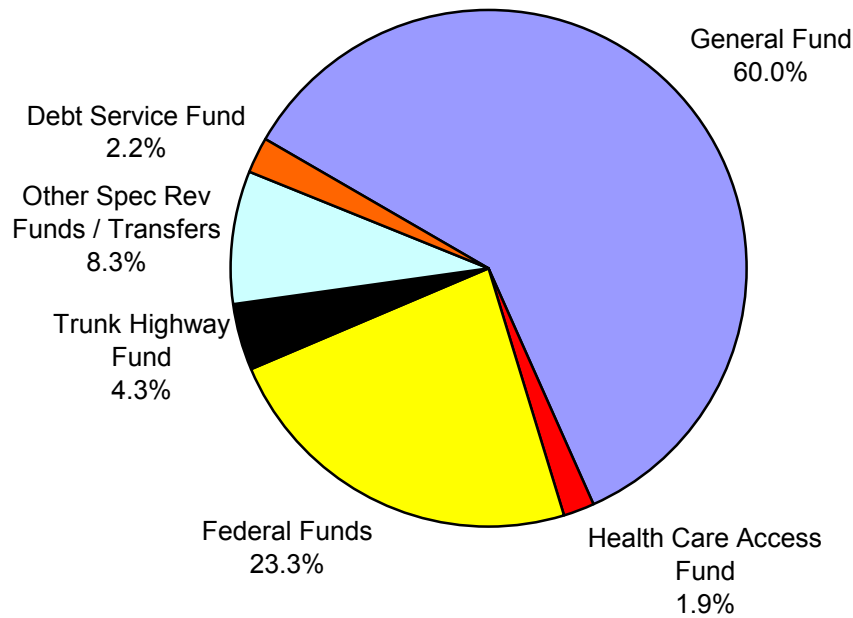
Total Revenues

\$53,842

Total State 2008-09 Operating Budget January 2007 Governor's Recommendations

All Operating Funds - By Fund Type

*2008-09 Budget
\$55.062 Billion Spending*

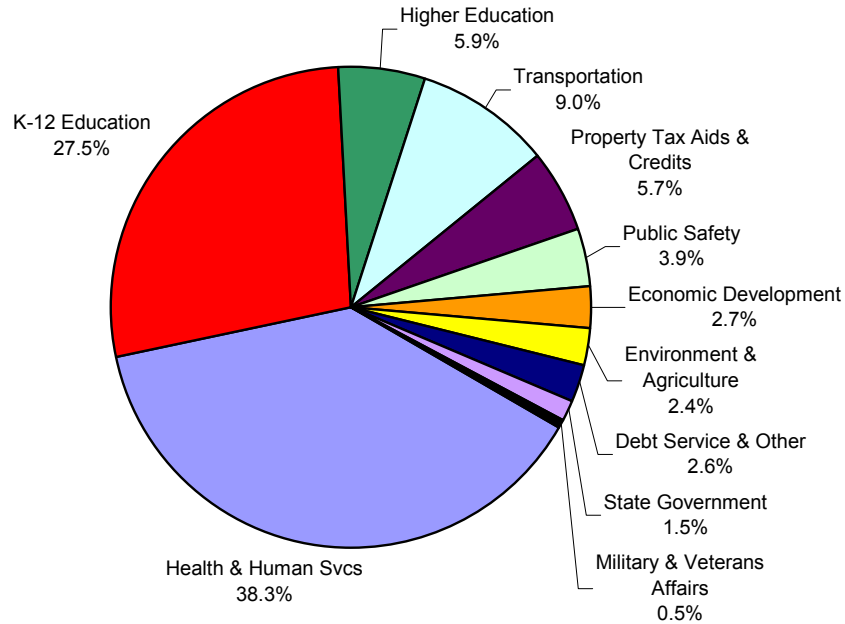


<u>Fund Type</u>	<u>(\$ in millions)</u>
General Fund	\$33,030
Health Care Access Fund	1,057
Federal Funds	12,828
Trunk Highway Fund	2,384
Other Spec Rev Funds / Transfers	4,563
Debt Service Fund	1,200
Total Spending	<u><u>\$55,062</u></u>

Total State 2008-09 Operating Budget January 2007 Governor's Recommendations

All Operating Funds - By Major Spending Area

**2008-09 Budget
\$55.062 Billion Spending**



<u>Major Spending Area:</u>	<u>(\$ in millions)</u>
Health & Human Svcs	\$21,104
K-12 Education	15,125
Transportation	4,956
Property Tax Aids & Credits	3,157
Higher Education	3,275
Public Safety	2,166
Economic Development	1,483
Environment & Agriculture	1,317
Debt Service & Other	1,418
State Government	806
Military & Veterans Affairs	255
Total Spending	\$55,062

January 2007 Governor's Recommendations
General Fund
(\$ in thousands)

	Gov Rec FY 2008	Gov Rec FY 2009	Gov Rec FY 2008-09
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	2,133,701	1,515,329	2,133,701
Current Resources:			
Tax Revenues	15,263,975	15,941,441	31,205,416
Non-Tax Revenues	762,262	748,943	1,511,205
Dedicated Revenue	65,585	66,713	132,298
Transfers In	310,144	308,437	618,581
Prior Year Adjustments	25,000	25,000	50,000
Budget Changes - Taxes	(103,565)	(59,635)	(163,200)
Budget Changes - Non-Taxes	5,891	14,781	20,672
Subtotal-Current Resources	16,329,292	17,045,680	33,374,972
Total Resources Available	18,462,993	18,561,009	35,508,673
<u>Actual & Estimated Spending</u>			
K-12 Education	6,783,358	6,961,619	13,744,977
K-12 Shift / Buyback	(11,058)	7,248	(3,810)
Subtotal K-12 Education	6,772,300	6,968,867	13,741,167
Property Tax Aids & Credits	1,550,938	1,621,355	3,172,293
Higher Education	1,597,964	1,618,253	3,216,217
Health & Human Services	4,600,996	4,939,743	9,540,739
Environment & Agriculture	230,359	235,328	465,687
Economic Development	213,432	164,888	378,320
Transportation	226,717	108,980	335,697
Public Safety	914,319	951,677	1,865,996
Military & Veterans Affairs	36,238	33,849	70,087
State Government	341,083	320,593	661,676
Debt Service	410,039	485,759	895,798
Capital Projects	10,250	10,250	20,500
Estimated Cancellations	(5,000)	(7,500)	(12,500)
Subtotal Expenditures & Transfers	16,899,635	17,452,042	34,351,677
Dedicated Expenditures	48,029	49,157	97,186
Total Expenditures & Transfers	16,947,664	17,501,199	34,448,863
Balance Before Reserves	1,515,329	1,059,810	1,059,810
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	700,000	700,000	700,000
Budgetary Balance	465,329	9,810	9,810

January 2007 Governor's Recommendations
General Fund - Annual Percent Change
(\$ in thousands)

	1-07 Gov Rec FY 2007	1-07 Gov Rec FY 2008	% Change	1-07 Gov Rec FY 2009	% Change
<u>Actual & Estimated Resources</u>					
Balance Forward From Prior Year	1,813,145	2,133,701	17.7%	1,515,329	-29.0%
Current Resources:					
Tax Revenues	14,955,971	15,263,975	2.1%	15,941,441	4.4%
Non-Tax Revenues	838,465	762,262	-9.1%	748,943	-1.7%
Dedicated Revenue	71,321	65,585	-8.0%	66,713	1.7%
Transfers In	391,891	310,144	-20.9%	308,437	-0.6%
Prior Year Adjustments	25,000	25,000	0.0%	25,000	0.0%
Budget Changes - Taxes	0	(103,565)	nm	(59,635)	nm
Budget Changes - Non-Taxes	0	5,891	nm	14,781	nm
Subtotal-Current Resources	16,282,648	16,329,292	0.3%	17,045,680	4.4%
Total Resources Available	18,095,793	18,462,993	2.0%	18,561,009	0.5%
<u>Actual & Estimated Spending</u>					
K-12 Education	6,454,030	6,783,358	5.1%	6,961,619	2.6%
K-12 Shift / Buyback	39,588	(11,058)	nm	7,248	nm
Subtotal K-12 Education	6,493,618	6,772,300	4.3%	6,968,867	2.9%
Property Tax Aids & Credits	1,561,276	1,550,938	-0.7%	1,621,355	4.5%
Higher Education	1,414,717	1,597,964	13.0%	1,618,253	1.3%
Health & Human Services	4,313,639	4,600,996	6.7%	4,939,743	7.4%
Environment & Agriculture	199,634	230,359	15.4%	235,328	2.2%
Economic Development	183,310	213,432	16.4%	164,888	-22.7%
Transportation	113,938	226,717	99.0%	108,980	-51.9%
Public Safety	900,032	914,319	1.6%	951,677	4.1%
Military & Veterans Affairs	27,191	36,238	33.3%	33,849	-6.6%
State Government	305,865	341,083	11.5%	320,593	-6.0%
Debt Service	399,651	410,039	2.6%	485,759	18.5%
Capital Projects	0	10,250	nm	10,250	nm
Deficiencies/Other	2,800	0	nm	0	nm
Estimated Cancellations	(7,500)	(5,000)	-33.3%	(7,500)	50.0%
Subtotal Expenditures & Transfers	15,908,171	16,899,635	6.2%	17,452,042	3.3%
Dedicated Expenditures	53,921	48,029	-10.9%	49,157	2.3%
Total Expenditures & Transfers	15,962,092	16,947,664	6.2%	17,501,199	3.3%
Balance Before Reserves	2,133,701	1,515,329		1,059,810	
Cash Flow Account	350,000	350,000		350,000	
Budget Reserve	653,000	700,000		700,000	
Tax Relief Account	109,660	0		0	
Budgetary Balance	1,021,041	465,329		9,810	

Comparison: FY 2008-09 vs FY 2006-07
Governor's Recommendations - General Fund
(\$ in thousands)

	Gov Rec FY 2006-07	Gov Rec FY 2008-09	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,393,086	2,133,701	740,615	53.2%
Current Resources:				
Tax Revenues	29,604,932	31,205,416	1,600,484	5.4%
Non-Tax Revenues	1,699,857	1,511,205	(188,652)	-11.1%
Dedicated Revenue	115,422	132,298	16,876	14.6%
Transfers In	776,606	618,581	(158,025)	-20.3%
Prior Year Adjustments	48,190	50,000	1,810	3.8%
Budget Changes - Taxes	0	(163,200)	(163,200)	nm
Budget Changes - Non-Taxes	0	20,672	20,672	nm
Subtotal-Current Resources	32,245,007	33,374,972	1,129,965	3.5%
Total Resources Available	33,638,093	35,508,673	1,870,580	5.6%
<u>Actual & Estimated Spending</u>				
K-12 Education	12,759,269	13,744,977	985,708	7.7%
K-12 Shift / Buyback	609,435	(3,810)	(613,245)	nm
Subtotal K-12 Education	13,368,704	13,741,167	372,463	2.8%
Property Tax Aids & Credits	3,024,911	3,172,293	147,382	4.9%
Higher Education	2,762,597	3,216,217	453,620	16.4%
Health & Human Services	8,255,787	9,540,739	1,284,952	15.6%
Environment & Agriculture	367,085	465,687	98,602	26.9%
Economic Development	345,996	378,320	32,324	9.3%
Transportation	216,139	335,697	119,558	55.3%
Public Safety	1,711,594	1,865,996	154,402	9.0%
Military & Veterans Affairs	46,450	70,087	23,637	50.9%
State Government	567,986	661,676	93,690	16.5%
Debt Service	752,098	895,798	143,700	19.1%
Capital Projects	0	20,500	20,500	nm
Deficiencies/Other	4,511	0	(4,511)	nm
Estimated Cancellations	(7,500)	(12,500)	(5,000)	66.7%
Subtotal Expenditures & Transfers	31,416,358	34,351,677	2,935,319	9.3%
Dedicated Expenditures	88,034	97,186	9,152	10.4%
Total Expenditures & Transfers	31,504,392	34,448,863	2,944,471	9.3%
Balance Before Reserves	2,133,701	1,059,810	(1,073,891)	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	700,000	47,000	
Tax Relief Account	109,660	0	(109,660)	
Budgetary Balance	1,021,041	9,810	(1,011,231)	

Comparison: Governor's Budget vs November 2006 Forecast

General Fund

(\$ in thousands)

	11-06 Fcst FY 2008-09	Gov Rec FY 2008-09	\$ Change
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	2,151,080	2,133,701	(17,379)
Current Resources:			
Tax Revenues	31,205,416	31,205,416	0
Non-Tax Revenues	1,511,205	1,511,205	0
Dedicated Revenue	132,298	132,298	0
Transfers In	618,581	618,581	0
Prior Year Adjustments	50,000	50,000	0
Budget Changes - Taxes	0	(163,200)	(163,200)
Budget Changes - Non-Taxes	0	20,672	20,672
Subtotal-Current Resources	33,517,500	33,374,972	(142,528)
Total Resources Available	35,668,580	35,508,673	(159,907)
<u>Actual & Estimated Spending</u>			
K-12 Education	12,984,867	13,744,977	760,110
K-12 Shift / Buyback	(3,810)	(3,810)	0
Subtotal K-12 Education	12,981,057	13,741,167	760,110
Property Tax Aids & Credits	3,106,793	3,172,293	65,500
Higher Education	2,802,020	3,216,217	414,197
Health & Human Services	9,368,746	9,540,739	171,993
Environment & Agriculture	383,074	465,687	82,613
Economic Development	300,042	378,320	78,278
Transportation	224,964	335,697	110,733
Public Safety	1,723,372	1,865,996	142,624
Military & Veterans Affairs	50,529	70,087	19,558
State Government	555,080	661,676	106,596
Debt Service	901,953	895,798	(6,155)
Capital Projects	20,500	20,500	0
Estimated Cancellations	(20,000)	(12,500)	7,500
Subtotal Expenditures & Transfers	32,398,130	34,351,677	1,953,547
Dedicated Expenditures	97,498	97,186	(312)
Total Expenditures & Transfers	32,495,628	34,448,863	1,953,235
Balance Before Reserves	3,172,952	1,059,810	(2,113,142)
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	700,000	47,000
Budgetary Balance	2,169,952	9,810	(2,160,142)

FY 2010-11 Budget Planning Estimates

General Fund

(\$ in thousands)

	Gov Rec FY 2006-07	Gov Rec FY 2008-09	Gov Rec FY 2010-11
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	1,393,086	2,133,701	1,059,810
Current Resources:			
Tax Revenues	29,604,932	31,205,416	34,745,661
Non-Tax Revenues	1,699,857	1,511,205	1,500,777
Dedicated Revenue	115,422	132,298	89,426
Transfers In	776,606	618,581	607,071
Prior Year Adjustments	48,190	50,000	50,000
Budget Changes - Taxes	0	(163,200)	(185,760)
Budget Changes - Non-Taxes	0	20,672	44,441
Subtotal-Current Resources	32,245,007	33,374,972	36,851,616
Total Resources Available	33,638,093	35,508,673	37,911,426
<u>Actual & Estimated Spending</u>			
K-12 Education	12,759,269	13,744,977	13,737,359
K-12 Shift / Buyback	609,435	(3,810)	0
Subtotal K-12 Education	13,368,704	13,741,167	13,737,359
Property Tax Aids & Credits	3,024,911	3,172,293	3,240,435
Higher Education	2,762,597	3,216,217	3,136,653
Health & Human Services	8,255,787	9,540,739	10,949,688
Environment & Agriculture	367,085	465,687	470,496
Economic Development	345,996	378,320	329,878
Transportation	216,139	335,697	217,904
Public Safety	1,711,594	1,865,996	1,905,462
Military & Veterans Affairs	46,450	70,087	67,543
State Government	567,986	661,676	633,740
Debt Service	752,098	895,798	1,021,573
Capital Projects	0	20,500	20,500
Deficiencies/Other	4,511	0	0
Estimated Cancellations	(7,500)	(12,500)	(12,500)
Subtotal Expenditures & Transfers	31,416,358	34,351,677	35,718,731
Dedicated Expenditures	88,034	97,186	54,314
Total Expenditures & Transfers	31,504,392	34,448,863	35,773,045
Balance Before Reserves	2,133,701	1,059,810	2,138,381
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	700,000	700,000
Tax Relief Account	109,660	0	0
Budgetary Balance	1,021,041	9,810	1,088,381